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Governor

Leonard K. Peters
Secretary
Energy and Environment Cabinet

Commonwealth of Kentucky
Public Service Commission
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David L. Armstrong
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James Gardner
Vice-Chairman

John W. Clay
Commissioner

August 8, 2008

Mr. Howard Downing
109 South First Street
Nicholasville, Kentucky 40356

RE: Case No. 2008-00011
August 7, 2008 Informal Conference

Dear Sirs:

Enclosed please find a memorandum that has been filed in the record of the above-referenced case. Comments regarding the contents of the memorandum should be submitted to the Commission within seven days of receipt of this letter. Questions regarding this memorandum should be directed to Jeff Shaw of the Commission Staff at 502-564-3940, extension 237.

Sincerely,

A handwritten signature in cursive script that reads "Stephanie Stumbo".

Stephanie Stumbo
Executive Director

Attachment
CC: Parties of Record

INTRA-AGENCY MEMORANDUM
KENTUCKY PUBLIC SERVICE COMMISSION

TO: Main Case File - Case No. 2008-00011
FROM:  Jeff Shaw, Team Leader
DATE: August 8, 2008
RE: Informal Conference of August 7, 2008

On August 7, 2008, an informal conference was held in this case for the purpose of discussing issues related to the Settlement Stipulation and Recommendation ("Settlement") between Blue Grass Energy Cooperative Corporation ("Blue Grass") and the intervening parties, the Office of the Attorney General ("AG") and Troy and Leigh Roach, which was filed with the Commission on July 31, 2008. A copy of the attendance list for the conference is attached hereto. Commission Staff ("Staff") telephoned the Roach residence and spoke with Ms. Roach at the beginning of the informal conference. She indicated that she had a conflict and would be unable to participate. She further stated in response to Staff's inquiry that she had no objection to the conference being held in her absence. Staff informed Ms. Roach that she would receive a copy of its memorandum summarizing the conference.

Blue Grass's proposed revenue increase, pursuant to its April 11, 2008 application, is roughly \$7.838 million while the increase agreed upon by the parties and contained in the Settlement is nearly \$7.406 million. Staff asked questions concerning three issues pertaining to the Settlement. On two of the issues; (1) whether the rates contained in the Settlement for Blue Grass's GS-3, Time of Day Rate, were correct and (2) the absence from the Settlement of any indication of whether it was based on the increased depreciation rates proposed by Blue Grass in its application, Blue Grass and the AG agreed that the Settlement would be amended and refiled with the Commission to address those issues.

The third issue was the level of interest on long-term debt upon which the Settlement was based. Staff was concerned that the most current level of interest expense included in the record, which was the updated interest expense filed by Blue Grass in response to Staff's second data request, did not support the revenue increase contained in the Settlement. The discussion that followed indicated there were several items, other than the updated information in the aforementioned data response, that were relevant to the issue of the level of interest expense on which the Settlement was based and which were pertinent to the Commission's consideration of the Settlement. Blue Grass provided handouts that provided additional information on its interest on long-term debt, which are included as attachments to this memorandum. The parties

and Staff agreed that the items impacting the interest expense issue should be addressed and made part of the case record at the upcoming August 12, 2008 hearing.

The conference ended with the understanding that the upcoming hearing in this matter would focus on the reasonableness of the Settlement. Staff also indicated that a memorandum summarizing the conference would be prepared and filed in the record of this case.

Attachments

Blue Grass Energy
Case No. 2008-00011
August 7, 2008 Informal Conference

Name	Representing
Jeff Shaw	PSC - FIN. ANALYSIS
ANITA MITCHELL	PSC
JEFF JOHNSON	PSC
Larry Cook	OAG
HOWARD DOWNING	BLUE GRASS ENERGY
Donald Smothers	" " "
Mike Williams	" " "
CHRIS BREWER	" " "
Dan Brewer	" " "
Jim Gibbons	" " "
Daryl Newby	PSC - F/A
John Rogness	PSC - FA
Chris Whelan	PSC - FA
Ron Handzick	PSC - FA

Blue Grass Energy
Case No. 2008-00011
Schedule of Outstanding Long-Term Debt
December 31, 2007

Exhibit 5
page 2 of 4
Format 8a
Schedule 2

Type of <u>Debt Issued</u> (a)	Date of <u>Issue</u> (b)	Date of <u>Maturity</u> (c)	Outstanding <u>Amount</u> (d)	Cost Rate to <u>Maturity</u> (g)	Annualized Cost <u>Col (d)x(g)</u> (j)	Test Year Interest <u>Cost</u>
RUS loans						
B2190	Dec-72	Dec-07	2,313	2.000%	46	155
B280	Aug-95	Jul-30	939,047	5.750%	53,995	54,569
B281	Aug-95	Jul-30	315,176	6.000%	18,911	19,104
B285	Aug-95	Jul-30	849,274	5.500%	46,710	47,219
B286	Aug-95	Jul-30	390,438	5.125%	20,010	20,240
B520	Jan-95	Dec-29	1,247,482	5.750%	71,730	72,530
B530	Jun-98	May-33	4,446,458	5.000%	222,323	224,463
B531	Jun-98	May-33	4,012,925	3.370%	135,236	147,313
B870	Sep-04	Aug-39	7,819,553	3.500%	273,684	285,904
B872	Sep-04	Aug-39	10,789,187	4.250%	458,540	461,931
B873	Sep-04	Aug-39	4,908,834	4.500%	220,898	222,451
B874	Sep-04	Aug-39	5,208,357	4.120%	214,584	188,722
			40,929,044			1,744,601
					1,736,667	
FFB loans						
H0010	Feb-99	Jan-34	5,521,562	5.077%	280,330	284,064
H0050	Feb-99	Jan-34	11,672,054	4.635%	541,000	569,740
H0055	Jun-00	May-35	2,709,821	4.906%	132,944	134,494
H0070	Jun-00	May-35	11,880,307	4.635%	550,652	579,093
H0075	Apr-05	Mar-40	3,053,186	4.904%	149,728	151,852
			34,836,930			1,719,243
					1,654,654	
CFC loans						
9001	Mar-74	Feb-09	14,935	7.00%	1,045	1,654
9004	Mar-75	Feb-10	24,533	5.65%	1,386	1,667
9005	Sep-76	Aug-11	84,973	6.95%	5,906	6,572
9006	Jun-78	May-13	270,485	7.00%	18,934	20,300
9007	Sep-80	Aug-15	390,838	5.65%	22,082	23,188
9008	Dec-82	Nov-17	275,340	7.00%	19,274	19,919
9009	Sep-84	Aug-19	585,774	7.00%	41,004	36,742
9010	Mar-89	Feb-24	1,249,286	7.10%	88,699	78,692
9011	Jun-95	May-30	1,099,030	7.10%	78,031	68,671
9013	Dec-73	Nov-08	5,459	7.00%	382	560
9014	Dec-74	Nov-09	27,142	7.00%	1,900	2,328
9015	Mar-76	Feb-11	73,782	6.95%	5,128	5,808
9016	Jun-78	May-13	200,391	6.10%	12,224	13,098

Blue Grass Energy

Exhibit 5

Case No. 2008-00011

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Schedule of Outstanding Long-Term Debt

Format 8a

December 31, 2007

Schedule 2

	Type of <u>Debt Issued</u> (a)	Date of <u>Issue</u> (b)	Date of <u>Maturity</u> (c)	Outstanding <u>Amount</u> (d)	Cost Rate to <u>Maturity</u> (g)	Annualized Cost <u>Col (d)x(g)</u> (j)	Test Year Interest <u>Cost</u>
1							
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48	9017	Mar-80	Feb-15	220,124	7.00%	15,409	16,199
49	2018	Dec-84	Nov-19	193,603	7.00%	13,552	13,902
50	9019	Dec-86	Nov-21	188,825	7.10%	13,407	13,678
51	9020	Mar-91	Feb-26	469,120	7.10%	33,308	33,741
52	9021	Dec-94	Nov-29	529,864	5.65%	29,937	30,273
53	9024	Jun-72	May-07	6,239	7.00%	437	822
54	9026	Dec-73	Nov-08	10,864	7.00%	760	1,115
55	9027	Mar-75	Feb-10	19,305	5.65%	1,091	1,312
56	9028	Dec-75	Nov-10	75,920	5.65%	4,289	4,928
57	9029	Jun-77	May-12	114,320	5.65%	6,459	7,073
58	9030	Jun-79	May-14	168,330	5.65%	9,511	10,100
59	9031	Mar-81	Feb-16	219,188	5.65%	12,384	12,958
60	9032	Jun-83	May-18	149,529	5.65%	8,448	8,736
61	9033	Jun-85	May-20	211,875	5.65%	11,971	12,292
62	9034	Dec-87	Nov-22	233,725	5.65%	13,205	13,478
63	9035	Sep-89	Aug-24	413,947	5.65%	23,388	23,797
64	9036	Dec-93	Nov-28	741,513	5.65%	41,895	42,404
65	903705	Aug-03	May-08	552,265	3.65%	20,158	30,055
66	903706	Aug-03	May-09	1,094,587	4.10%	44,878	44,878
67	903707	Aug-03	May-10	1,094,587	4.35%	47,615	47,615
68	903708	Aug-03	May-11	1,094,587	4.65%	50,898	50,898
69	903709	Aug-03	May-12	1,094,587	4.85%	53,087	53,087
70	903710	Aug-03	May-13	1,094,587	5.05%	55,277	55,277
71	903711	Aug-03	May-14	1,094,587	5.25%	57,466	57,466
72	903712	Aug-03	May-15	1,094,587	5.30%	58,013	58,013
73	903713	Aug-03	May-16	1,094,587	5.40%	59,108	59,108
74	903714	Aug-03	May-17	1,094,587	5.35%	58,560	58,560
75	903715	Aug-03	May-18	1,094,587	5.45%	59,655	59,655
76	9037020	Aug-03	May-08	322,926	3.65%	11,787	17,574
77	9037021	Aug-03	May-09	640,039	4.10%	26,242	26,242
78	9037022	Aug-03	May-10	640,039	4.35%	27,842	27,842
79	9037023	Aug-03	May-11	640,039	4.65%	29,762	29,762
80	9037024	Aug-03	May-12	640,039	4.85%	31,042	31,042
81	9037025	Aug-03	May-13	640,039	5.05%	32,322	32,322
82	9037026	Aug-03	May-19	273,647	5.80%	15,872	15,872
83	9037027	Aug-03	May-19	273,647	5.88%	16,090	16,090
84	9037028	Aug-03	May-19	273,647	5.91%	16,173	16,173

Blue Grass Energy
Case No. 2008-00011
Schedule of Outstanding Long-Term Debt
December 31, 2007

Exhibit 5
page 2 of 4
Format 8a
Schedule 2

<u>Debt Issued</u> (a)	<u>Date of Issue</u> (b)	<u>Date of Maturity</u> (c)	<u>Outstanding Amount</u> (d)	<u>Cost Rate to Maturity</u> (g)	<u>Annualized Cost Col (d)x(g)</u> (j)	<u>Test Year Interest Cost</u>
9037029	Aug-03	May-19	273,647	5.94%	16,255	16,255
			<u>24,384,103</u>		<u>1,323,547</u>	<u>1,329,793</u>
Total long term debt and annualized co			<u>100,150,077</u>		<u>4,714,868</u>	<u>4,793,637</u>
Annualized cost rate [Total Col. (j) / Total Col. (d)]					4.71%	
Actual test year cost rate [Total Col (k) / Total Reported in Col (d)]						4.79%

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Blue Grass Energy
Case No. 2008-00011

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Schedule 2

Schedule of Outstanding Long-Term Debt
December 31, 2007

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B873	Sep-04	Aug-39	4,908,834	4.500%	220,898	222,451
B874	Sep-04	Aug-39	5,208,357	4.120%	214,584	188,722
B890	Apr-08	Apr-43	12,000,000	3.630%	435,600	0
			<u>52,929,044</u>		<u>2,172,267</u>	<u>1,744,601</u>
FFB loans						
H0010	Feb-99	Jan-34	5,521,562	5.077%	280,330	284,064
H0050	Feb-99	Jan-34	11,672,054	1.875%	218,851	569,740
H0055	Jun-00	May-35	2,709,821	4.906%	132,944	134,494
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			<u>34,836,930</u>		<u>1,004,609</u>	<u>1,719,243</u>
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Blue Grass Energy
Case No. 2008-00011

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Schedule 2

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December 31, 2007

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Blue Grass Energy
Case No. 2008-00011

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Format 8a
Schedule 2

Schedule of Outstanding Long-Term Debt
December 31, 2007

<u>Debt Issued</u> (a)	<u>Date of Issue</u> (b)	<u>Date of Maturity</u> (c)	<u>Outstanding Amount</u> (d)	<u>Cost Rate to Maturity</u> (g)	<u>Annualized Cost Col (d)x(g)</u> (j)	<u>Test Year Interest Cost</u>
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			<u>24,384,103</u>		<u>1,323,547</u>	<u>1,329,793</u>
Total long term debt and annualized co			<u>112,150,077</u>		<u>4,500,423</u>	<u>4,793,637</u>
Annualized cost rate [Total Col. (j) / Total Col. (d)]					4.01%	
Actual test year cost rate [Total Col (k) / Total Reported in Col (d)]						4.27%